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THE IMPACT OF OPEN SYSTEMS ON THE SERVICES MARKET IN GERMANY

A Study for Hewlett Packard (Germany) by INPUT (Europe)

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Table of Contents

I Introduction

A Scope of the Report I-1
B Methodology I-1
C Report Structure I-2
D Related INPUT Research Programmes and Reports I-3

II Executive Summary

A HP reputation is not for services II-1
B Desktop services demand grows II-2

III Research Results and Conclusions

A What open services are offered? III-2
  1. Support contract services III-5
  2. Service products III-7
  3. Project services III-9
  4. Consultancy services III-11
  5. New services in demand III-12
B Who buys services? III-14
C What will be spent on services? III-15
D How will vendor shares change? III-21
E Conclusions III-27

List of Exhibits

I Introduction

-1 User Respondent's Industry Sector Profile I-2

II Executive Summary

-1 Key Findings II-2
-2 Key Recommendations II-3

III Research Results and Conclusions

-1 Open System Services? III-1
-2 Integrated Services - Co-working III-2
-3 Support Contracts - User Growth Expectations, Germany, 1992 III-5
-4 Service & Repair Centre Trends III-6
-5 Multivendor Service Trends III-6
-6 Service Products - User Growth Expectations, Germany 1992 III-7
-7 Education and Training Trends III-8
-8 Project Contracts - User Growth Expectations, Germany 1992 III-9
-9 Systems Integration Trends III-10
-10 Consultancy Contracts - User Growth Expectations, Germany 1992 III-11
-11 Consulting Trends III-12
-12 User Demands for New Services, Germany 1992 III-13
-13 User Experience With Client-Server, Germany 1992 III-13
-14 Trends - Who Buys Services in Germany? III-14
-15 User Expectations - IT Budget Content Trends, Germany III-15
-16 How Will German IT Budgets Change? III-16
-17 Computer Services Forecast Germany III-17
-18 Forecast Impact of "Open" Systems on Computer Services - Germany III-18
-19 Forecast of Vendor Independent Computer Services - Germany III-19

-20 Vendor-Independent Services, Germany III-20
-21 User Expectations - Future Success of Vendor Groups, Germany 1992 III-21
-22 User Opinions of Named Vendors, Germany 1992 III-22
-23 Professional Services Leading Vendors Germany 1991 III-23
-24 Systems Integration Leading Vendors Germany 1991 III-23
-25 Market Shares by Service Vendor Group, Germany III-24
-26 Education & Training by Services Vendor Group, Germany III-25
-27 Top Selection Criteria - Systems, Germany III-26
-28 Conclusions - Organisation III-27
-29 Conclusions - Channel Partners III-28
-30 Conclusions - Positioning III-28

I Introduction

This report is a brief analysis of material researched in Germany during the autumn of 1992, and presented to the services management of Hewlett Packard (Germany) at a meeting in Bad Homburg on January 14th 1993.

The report is designed to assist in Hewlett Packard's understanding of the impact on customer's service needs of the trends to open systems and client-server computing:

A

Scope of the Report

This report reviews and analyses the current types of service offered and forecasts changes likely over the next three to five years.

The report assesses trends for four major sectors that constitute Hewlett Packard's services business.

- Customer support services
- Education & training
- Professional project services
- Consulting services

B

Methodology

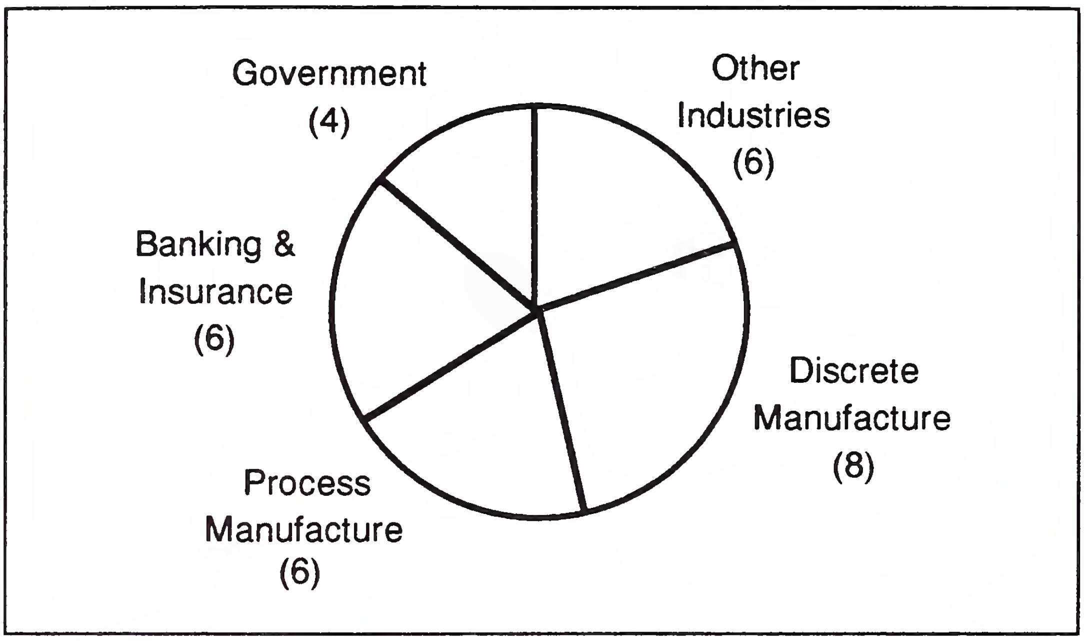
This report is based principally on German research activities conducted by INPUT during October to December1992:

- Internal briefing interviews to initiate the project and face-to-face interviews with key HP service managers in Germany over a subsequent two-day period.

- Face-to-face in-depth interviews with 30 IT managers in Germany, using a questionnaire designed by INPUT and agreed with HP. The questionnaire contained both prompted and un-prompted, and both qualitative and quantitative questions. Exhibit I-1 shows the industry sectors in which these user respondents operate.

EXHIBIT I-1

User Respondent's Industry Sector Profile



- INPUT's continuous analysis of service vendors provided a source of data on the responses of another twelve services vendors in Germany to the open systems trends.

- INPUT's other multi-client and custom research programmes into software, services and maintenance in the German market place.

Additionally INPUT's extensive library and data-base of information relating to the software and services industry was used.

C

Report Structure

The remaining chapters of this report are structured in the following way:

- Chapter II is an executive overview offering a concise summary of the contents of the report.

- Chapter III describes INPUT's assessment of the dimensions of the main constituent sectors of the German services market. It proposes a "most likely" scenario for the impact of the trends to open systems, to end-user purchasing, and the relative success of different vendor groupings.

D

Related INPUT Research Programmes and Reports

The following reports contain detailed analysis of key market sectors, offering commentary and recommendations for vendors active in Europe.

- *Computer Software and Services, Europe 1992-1997*
- *Software Applications Maintenance Opportunities*
- *The Impact of UNIX on Software and Services*

II Executive Summary

As a result of this research study, INPUT recommends that Hewlett Packard (Germany) continues to invest in developing its services capability, with particular focus on *desktop services* - relating to the rapidly growing complexity of desktop systems. The research indicates that there may be an unexpectedly high latent demand in Germany for desktop-related management, support and integration service opportunities.

HP *service* excellence should be promoted as an overall company attribute, with *services* being primarily a catalyst encouraging the sale of products and the success of channel partners.

It is unlikely that the market will recognise the intent or benefits of "open systems services" as the term "open systems" has already been devalued due to excessive use by all types of vendor.

A

HP reputation is not for services

The research undertaken with 30 IT managers in Germany confirmed that HP has an excellent reputation as a supplier. Thirteen respondents considered HP to be, or in the running to be, a strategic supplier in the future.

However, as the second point in Exhibit II-1 highlights, HP is not known for its services, it is known for its products, their performance, reliability, quality, price, etc.

In response to an open question about what new service users were considering buying, seven of the thirty talked of services to do with support, operation or management of desktop systems and applications. INPUT has already identified a similar growing trend for desktop services elsewhere in Europe. Also of interest was the significant level of interest in outsourcing central computer operations (5) and in third party maintenance (3).

EXHIBIT II-1

Key Findings

- Market confusion over the term Open Systems
- HP has excellent reputation - for printers, workstations and technology
- Strong unprompted user demand for desktop services
- Users still prefer independent vendors
- Users rank equipment vendors "least successful" as a group. (INPUT expects this to reverse in five years)

Opinion of independent vendors as a group was high, while opinion of hardware vendors as a group was low. However there was far more depth of knowledge about hardware vendors than independents, which might explain why they were so few criticisms of the independents!

In contrast, INPUT's analysis suggests that hardware vendors (the major computer manufacturers) will by and large succeed over the next decade at the expense of independents, due to their dominant positions in access to market, financial strength and ability to productise new technology.

B

Desktop services demand grows

INPUT's key recommendations, distilled from the body of the report in Chapter III, are shown in Exhibit II-2.

INPUT is predicting very fast growth (35% per year) in desktop services, albeit from a very small market at present. This type of service is resulting in vendors being willing to take on full responsibility for all types of support at the desktop: maintenance, application help-desks, re-organisation, replacement equipment, software distribution, network management, etc..

The novelty of these services means that there is no well established group of vendors - PC distributors lead the field at present. It may be a market where HP would find natural acceptance among users, due to its reputation already being almost exclusively at the desktop with printers and workstations.

INPUT recommends that HP investigates this desktop services opportunity in detail.

EXHIBIT II-2

Key Recommendations

- Research and develop desktop services
- Promote service not services
- Focus director attention on partners
- Maintain lead in technological skills

It would be an uphill struggle to establish a strong reputation for HP services outside the existing systems customer base. INPUT suggests that HP should ally its services image to that of its products - quality, technology, performance, reliability - and focus on adding service. Service is concerned with a focus on customers, an attribute of benefit throughout HP. Services should be treated more as a means of meeting individual customer requirements, a way of helping customers to fully exploit technology.

Successful partnerships are difficult to identify in the IT industry. They require dedication and long term commitment. INPUT suggests that senior directors should "own" one or more named partners/major accounts - independent of their particular job function. Their role is to establish and maintain high-level relations to ensure that a partnership flowers and doesn't wither.

HP is a high tech company, represented on many standards committees. The focus of the added-value services it offers in the market should be on its technology, engineering and architectural skills. Development of skills closer to the end customer's business - e.g., applications, organisation, etc. - should focus only on those sales opportunities where there is a clear major customer order to fund the investment. In general, such investments should be directed to HP channel partners. In summary, invest in HP's strength and in the strengths of HP's partners.

III Research Results and Conclusions

Open systems is a bandwagon which all product vendors have jumped onto as their customer look for better value and greater freedom of choice. Is there a market for open systems services? Can, or should HP position itself as a services vendor?

Exhibit III-1 shows the steps leading to INPUT's first conclusion - that branding any services this way is likely to add to the confusion in the market about the meaning of open systems. HP is already branded in the market as a leading open systems vendor. In the end the customer is looking to improve the bottom line of his business by implementing relevant and "right cost" IT solutions. He may or may not see open systems as a route to this goal.

EXHIBIT III-1

Open System Services?

Open Systems

= Reasonable freedom of choice

= Freedom of equipment vendor

= Market confusion

= Right Cost

ICL, for example, is a vendor which has a strong plan for establishing an open systems and services market image. Since they are trying to shed their old image - a U.K. mainframe vendor - it is reasonable for them to adopt a new one. HP on the other hand should not be considering losing its "old" image, as it already has a bright, successful image strongly related to open systems and desktop computing.

The rest of this chapter addresses the questions:

- What services are offered?
- Who buys services?
- What will be spent on services?
- How will vendor shares change?

It ends with some conclusions about HP's organisation, approach to channel partners and market positioning.

A

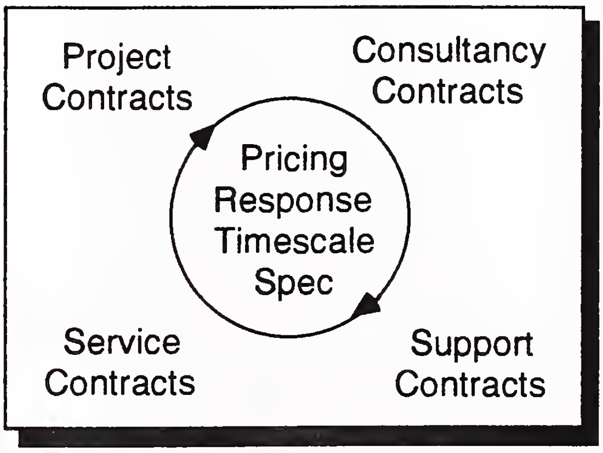
What open services are offered?

Creating an open service capability - the seamless supply of services delivered directly to the end-user and embracing hardware, software and communications - demands a broad spread of skills. One of the problems that service suppliers face in developing open support is the difficulty of bringing together the different cultures these different skills represent.

Support services have traditionally been segmented into those associated with hardware, software, systems development and operations, often with a different supplying company for each. These distinct origins have resulted in distinct cultures, which are broadly summarised below. Exhibit III-2 illustrates that there are different cultures with different approaches and priorities when it comes to objectives such as pricing, response times, timescales, and specifications.

EXHIBIT III-2

Integrated Services - Co-working



The product culture is principally found in the equipment and software product vendors. The energies of the organisation are focused upon developing products that both meet and anticipate the needs of the marketplace, and the sales channel is trained to interpret the needs of its customers and prospects in terms of the products available. In such companies any services offered have typically been streamed behind the products, and priced relative to them.

The project culture is largely the terrain of the consultancies, software houses and professional services companies, who are called in by a customer to scope or to design and develop a particular systems solution. The company's resources and internal systems are therefore focused around the notion of the project, which is priced according to the resources needed to deliver the required solution. The role of the sales channel is to promote the company's relevant competence and to ensure that the customer's needs are properly understood and responded to.

The support contract culture is typical of the third party maintenance companies, the FM companies and in the case of the larger systems vendors, of their customer service divisions. The services provided are defined by the contract under which they are supplied, and much energy is devoted to ensuring that the contract boundaries are well understood and adhered to. Pricing is typically based upon an assessment of the resource levels needed to meet the terms of the contract, often with elaborate mechanisms for measuring variation around the pre-agreed norm. The concept of the contract as an aid to service delivery is often sold as heavily as the services themselves.

Different cultures can clash. Of course, this is an oversimplification, and all these cultures can be represented simultaneously in a single organisation. For example, new business sales teams in all company types will tend to have a project culture, regarding each new bid as a project in its own right. Account managers, conversely, tend to the contract culture, regarding the relationship with the customer as an ongoing concern.

Many of the difficulties experienced by IT companies in achieving a smooth interface between their sales and delivery channels can be attributed to cultural differences.

Open support demands co-working. But open support demands a mix of all cultures: product skills are vital in ensuring that the technical complexity implicit in open and networked systems remains transparent to the user; project skills are needed to ensure that systems evolve in line with changing customer needs; and contract skills underpin the customer relationship and the achievement of agreed service levels.

Clearly, the glue holding the different service elements together should be a strong focus on the customer coupled with flexible attitudes. How companies chose to structure their resource teams in providing open support will also have a strong bearing on whether cultural differences become a strength or a weakness.

Delivery structure impacts open support. If resources remain streamed by function below the help desk level, with the overall support contract only acting as a mechanism for giving access to and charging for the discrete service elements, then seamless support is unlikely to be achieved.

Customer focus may be lacking and individual contracts will be just one of many serviced by the resource groups, with perhaps little appreciation of the overall characteristics of each. This will be particularly marked if the resource groups are profit centres or individual companies.

If on the other hand, resources are brought together in the context of either individual contracts or to service groups of like contracts, then the prospects for smooth integration of activities are improved. For example, a group of small software companies each supplying UNIX applications to IBM, works together to ensure that enhancement of one company's product does not adversely impact another's. From the customer's perspective these software products, although independently sourced, can be confidently integrated at the user level.

Should open services be packaged or customised? The degree of service integration required varies by customer type. Large corporate organisations pursuing an outsourcing philosophy will seek to minimise the number of suppliers and maximise service management:. Small to medium sized companies will look for packaged solutions and packaged services, heavily dependent upon remote support. There are therefore likely to be markets for both highly customised and 'shrink-wrapped' open support services.

Tackling cultural issues is vital. It is easy to underestimate the effect that failing to tackle cultural differences can have. One well-known IT services company has two divisions: one providing systems design and development services, and the other providing third party maintenance. Despite a marked decline in the company's performance in recent years, it has not been successful in bringing the two divisions together. Each continues to maintain separate sales channels, quite distinct customer bases, and to develop new service products in splendid isolation from each other. Attempts by the respective management and marketing teams to work together fizzle out as soon as responsibility for action passes to the operational level. Yet this company owns many of the resources needed to provide open support - it is its own lack of will that is frustrating any move towards doing so.

The companies that recognise and address the cultural issues implicit in open and integrated support, who ensure that all their activities are focused on the customer and that their delivery channels do not exacerbate cultural differences, are those that have the best chance of winning the services battle.

1. Support contract services

The first group of services researched can be called support contract services. These include such services as systems or product maintenance. Exhibit III-3 shows the users' experience of growth in these services over the past two years and their expectation over the next two years. Zero growth is represented by a score of 3 on the chart. So on average, rather surprisingly, the users expect growth to accelerate in all services mentioned except for contingency planning and disaster recovery services which will continue to be static.

EXHIBIT III-3

Support Contracts - User Growth Expectations, Germany, 1992

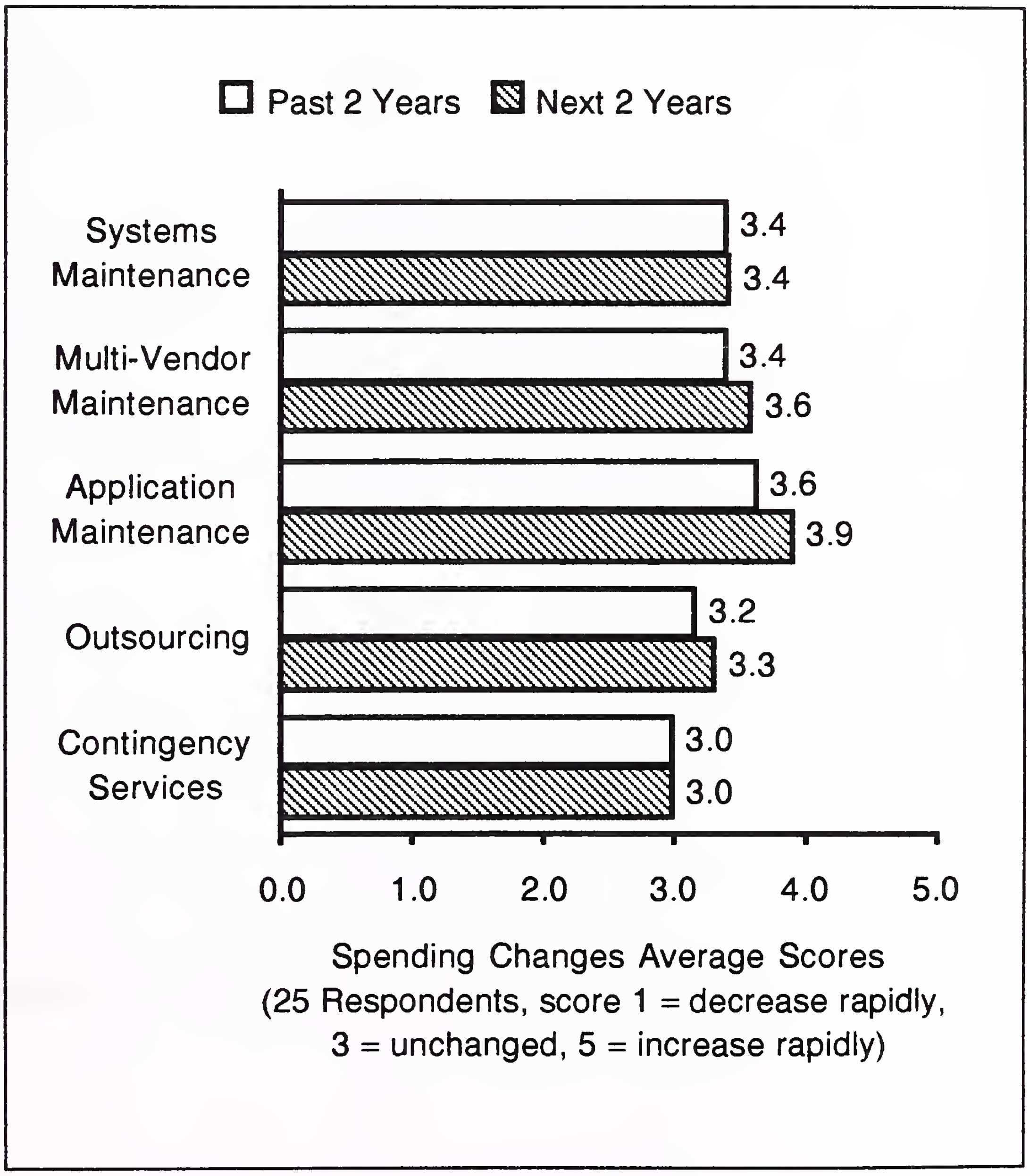


Exhibit III-4 identifies the main trends being experienced by vendors of support services who operate service and repair centres.

EXHIBIT III-4

Service & Repair Centre Trends

- Less repair
- Logistics focus
- Consolidating Europewide
- More outsourcing
- Restoring personal service

Exhibit III-5 lists the main factors affecting the market for multi-vendor maintenance. The final point results from INPUT becoming aware of agreements between large equipment vendors and certain third party maintenance vendors (TPMs) for the TPM to provide service as a subcontractor if necessary, and vice-versa in multi-vendor situations.

EXHIBIT III-5

Multivendor Service Trends

- Banking & Finance lead demand
- Site-related not system-related
- Follows Open Trend to "RightCost"
- Vendor-led & Project-led
- Normal for Telecom managers
- Invisible vendor partnerships

2. Service products

The second group of services researched can be called service products. These include such services as training courses. Exhibit III-6 shows the user's experience of growth in these services over the past two years and their expectation over the next two years. Zero growth is represented by a score of 3 on the chart. As usual there is a strong opinion that IT education will grow rapidly. INPUT's view is that this is unlikely to be the case in practice.

EXHIBIT III-6

Service Products - User Growth Expectations, Germany 1992

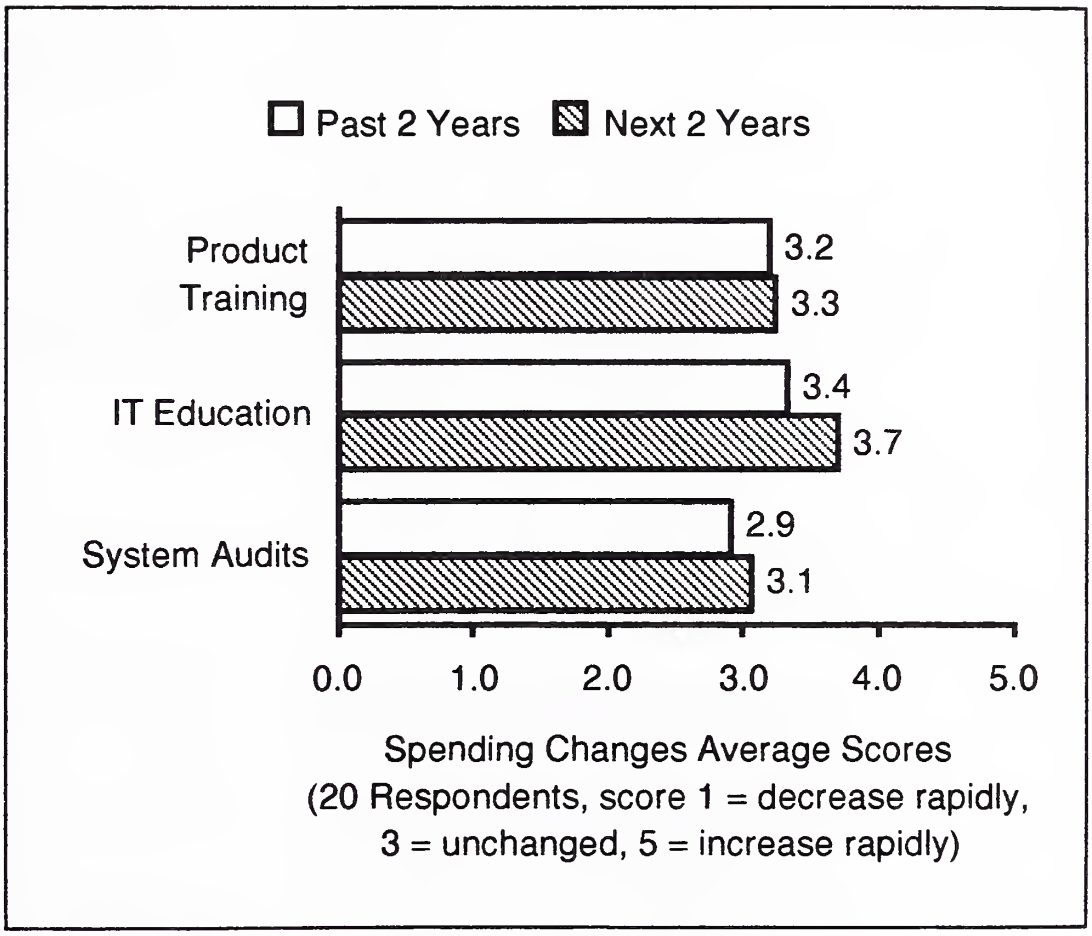


Exhibit III-7 summarises INPUT's findings on education and training.

EXHIBIT III-7

Education and Training Trends

- Tied to business needs
- Consulting style sell
  - Business re-engineering
  - Non-IT (+ transform IT)
- Users train more in-house
- Vendor channel training

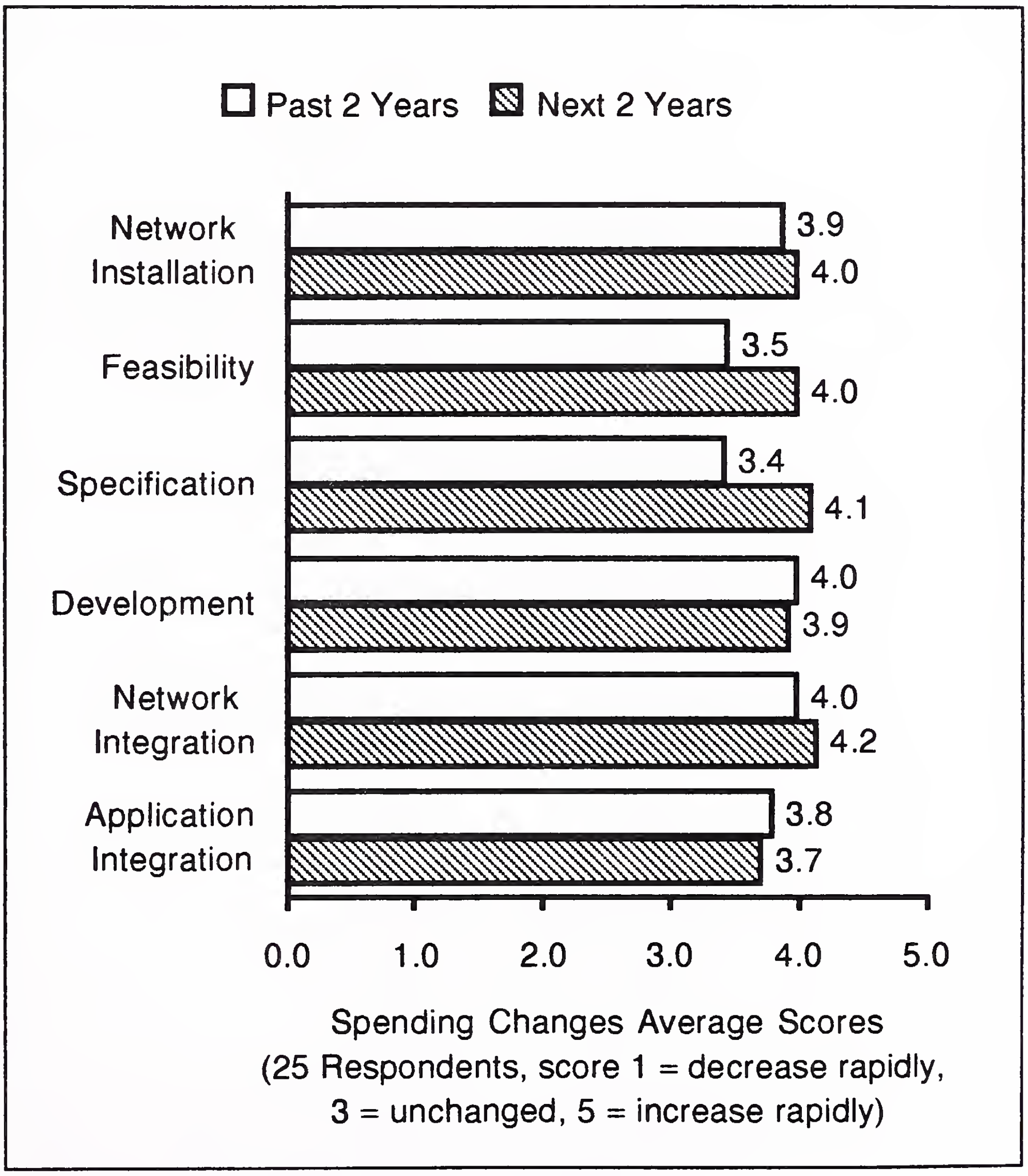
Some vendors now treat this activity as part of their marketing programme, viewing customer (including channel partners) training as an essential way of creating market demand for their products. Training is constantly under pressure for budget reductions due to: economic recession; the difficulty of relating IT training to business performance; and the use of new technology to reduce the cost of training users.

3. Project services

The third group of services researched can be called project services. These include such services as systems integration or custom software development. Exhibit III-8 shows the user's experience of growth in these services over the past two years and their expectation over the next two years. Zero growth is represented by a score of 3 on the chart. Software development and application integration are the only areas showing an expected fall in growth. This is in line with other INPUT research in Germany.

EXHIBIT III-8

Project Contracts - User Growth Expectations, Germany 1992



Systems integration is clearly a continuing demand from IT management. Exhibit III-9 identifies the key trends in this area. Successful vendors need significant financial strength, but there is still a strong tendency for customers to favour independent vendors. INPUT has identified that IT departments among leading companies are changing their role to that of an internal consultancy. In future IT departments may prefer to look after IT strategy and contract out projects and other technical activities.

EXHIBIT III-9

Systems Integration Trends

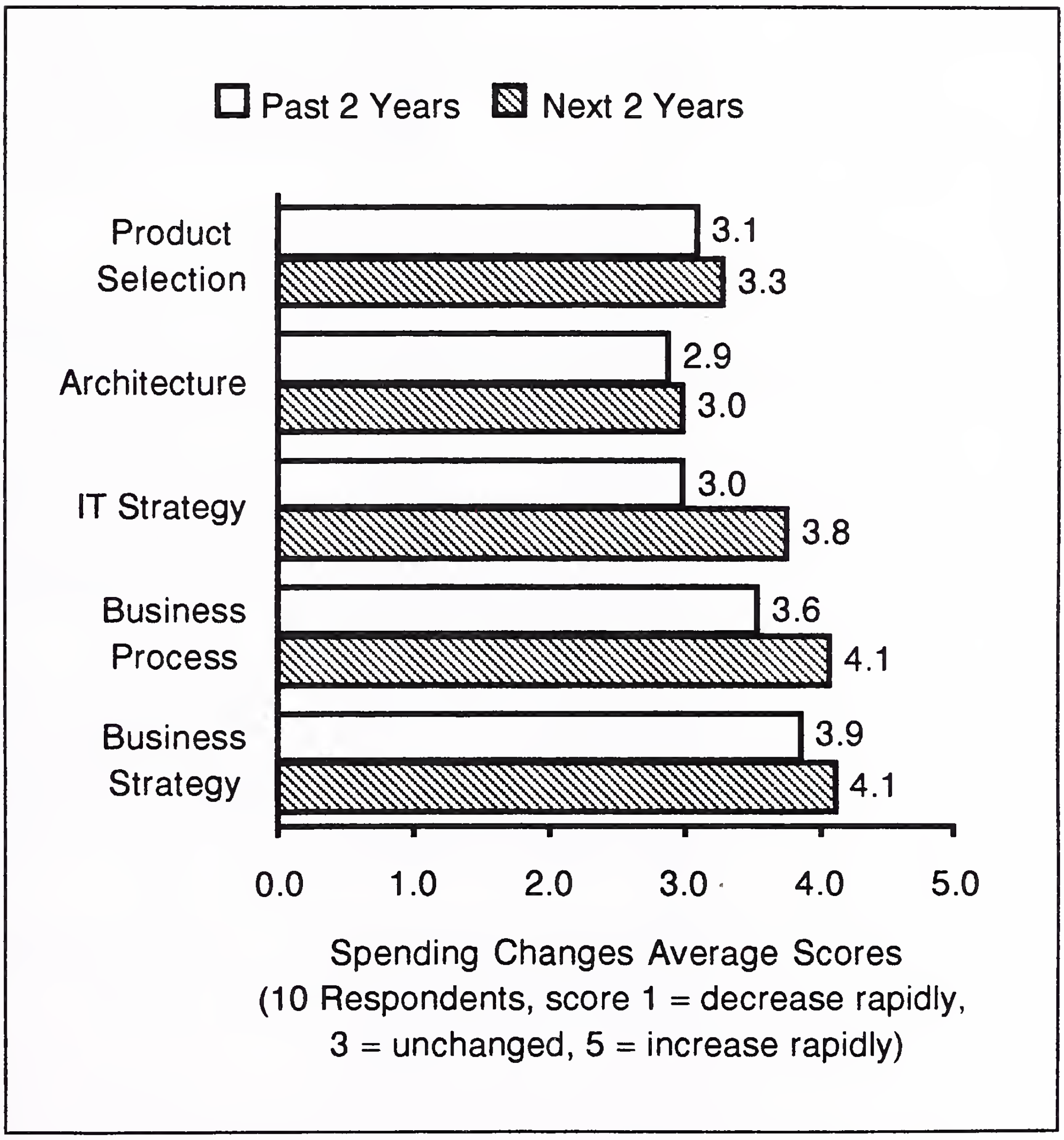
- Open systems now dominate
- Vendor's financial strength = lower risk
- Independents still favoured
- IT Department's role change (re-engineering the IT Dept?)

4. Consultancy services

The fourth group of services researched can be called consultancy services. These include such services as IT strategy or custom software specification. Exhibit III-10 shows the user's experience of growth in these types of services over the past two years and their expectation over the next two years. Zero growth is represented by a score of 3 on the chart. The importance of relating business and IT strategy can be seen in the response of these IT managers to questions about business consulting.

EXHIBIT III-10

Consultancy Contracts - User Growth Expectations, Germany 1992



INPUT's analysis of consulting trends is summarised in Exhibit III-11. Although suffering a severe loss of business growth today, consulting vendors can expect recovery in the longer term.

EXHIBIT III-11

Consulting Trends

- More focus on cost saving less focus on IT-based edge
- Leading IT vendors to offer management consulting
- IT managers view as expensive
- Independents are consolidating
- IT complexity increases

5. New services in demand

Exhibit III-12 shows an analysis of the responses to an open question - are there any particular new services you hope to buy in future? - put early in the user interviews.

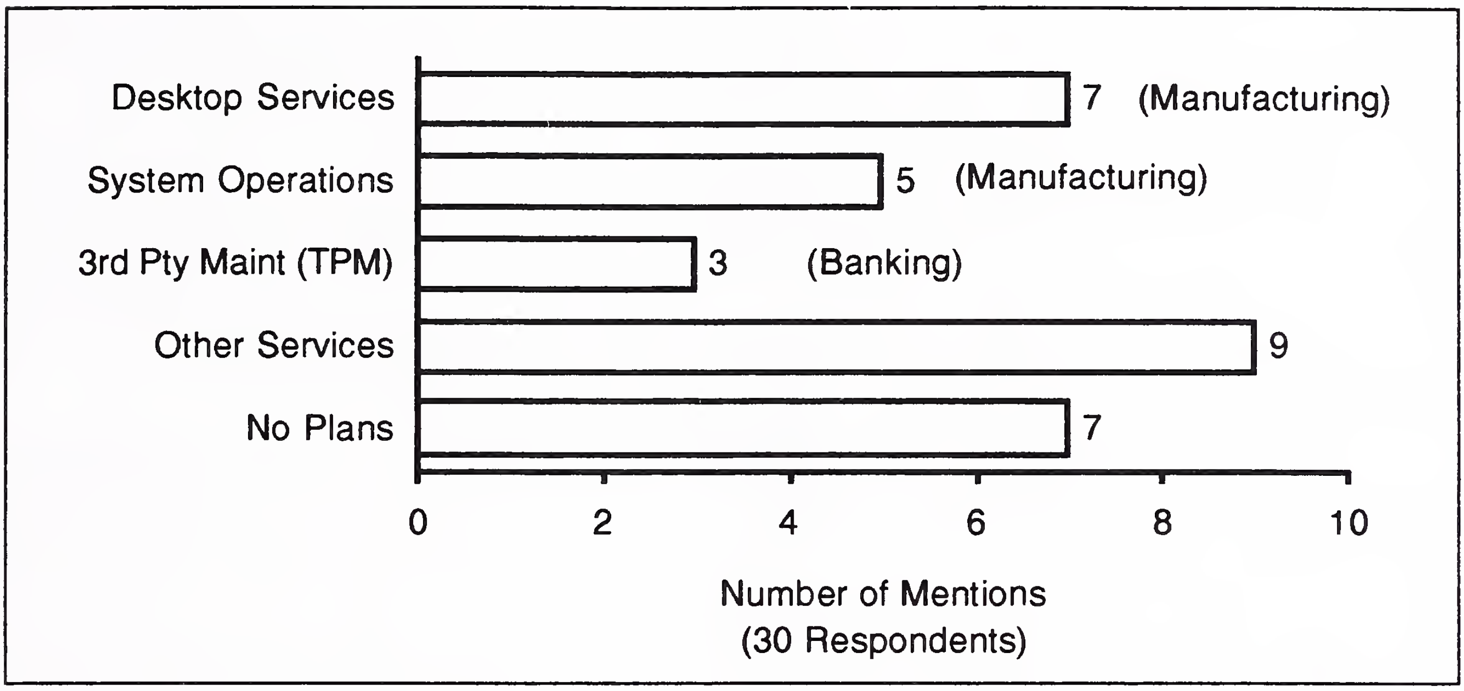
Most important to HP is the extraordinary number of respondents seeking a vendor who can provide one or more types of desktop service. End-user computing at the desktop is now getting so complex it is creating a whole set of new management difficulties. It is primarily manufacturing sector interviewees who are seeking desktop services.

INPUT strongly recommends that HP analyses in detail the opportunities for desktop services. Few vendors are any better positioned in this newly emerging and rapidly growing market. HP's current strengths in workstations and printers at the desktop make this opportunity look like a natural business fit.

Demand for TPM services came exclusively from the Banking users questioned on this same topic.

EXHIBIT III-12

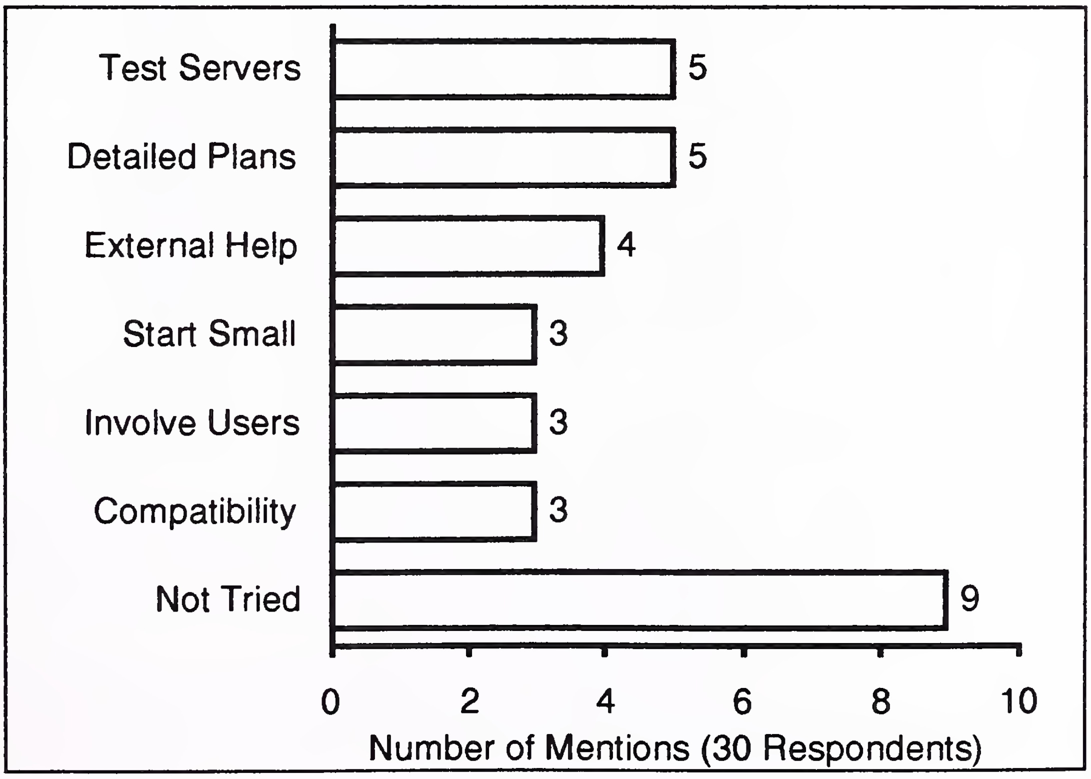
User Demands for New Services, Germany 1992



Among the user questions was one asking what advice they would give to someone embarking on a client-server project. Exhibit III-13 shows their replies analysed into topics in priority order.

EXHIBIT III-13

User Experience With Client-Server, Germany 1992

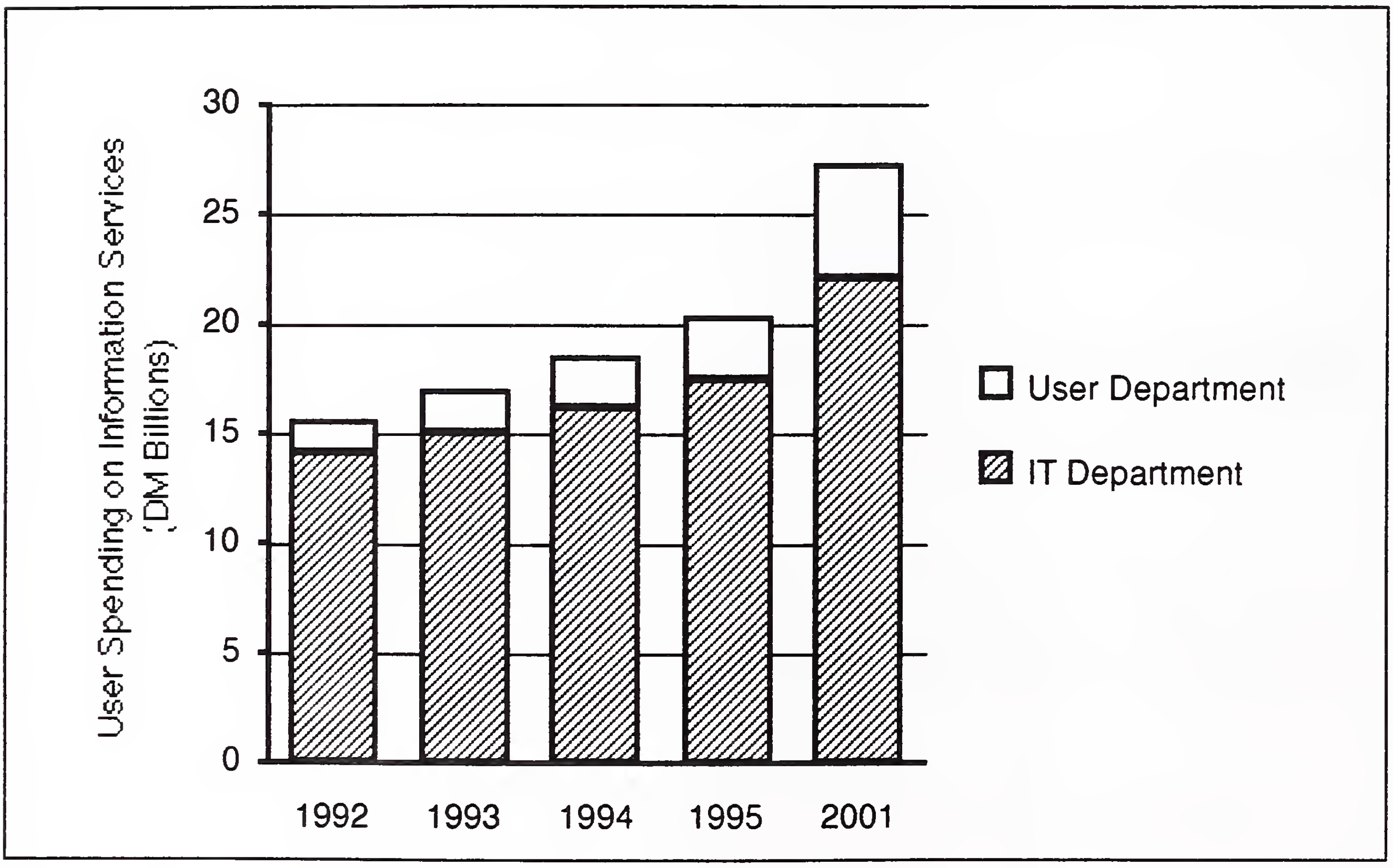


B
Who buys services?

With over half of all IT spend (hardware plus software and sevices) being generated for the desktop one can safely assume that users have a fast growing responsibility for a portion of the spend on IT services. However INPUT's analysis predicts that the services component is a lot smaller as a proportion, than that spent on products by end-users. Exhibit III-14 shows INPUT's analysis and forecast. It assumes that by the year 2001 a full 50% of all IT spending will be managed outside the IT department. However the technical knowledge required to successfully contract out services will limit the proportion of services in the hands of user management.

EXHIBIT III-14

Trends - Who Buys Computer Services in Germany?



This forecast was produced by assessing the impact of end-user spending on each service delivery mode in the German market. Delivery modes are the INPUT defined categories of service and software product with which the whole European (and World-wide) market is measured and forecast.

This exhibit also indicates the overall size and growth of the German market for services, which is analysed from several different perspectives in later exhibits. These forecasts were made before the severity of economic recession in Germany had been exposed late in 1992.

C

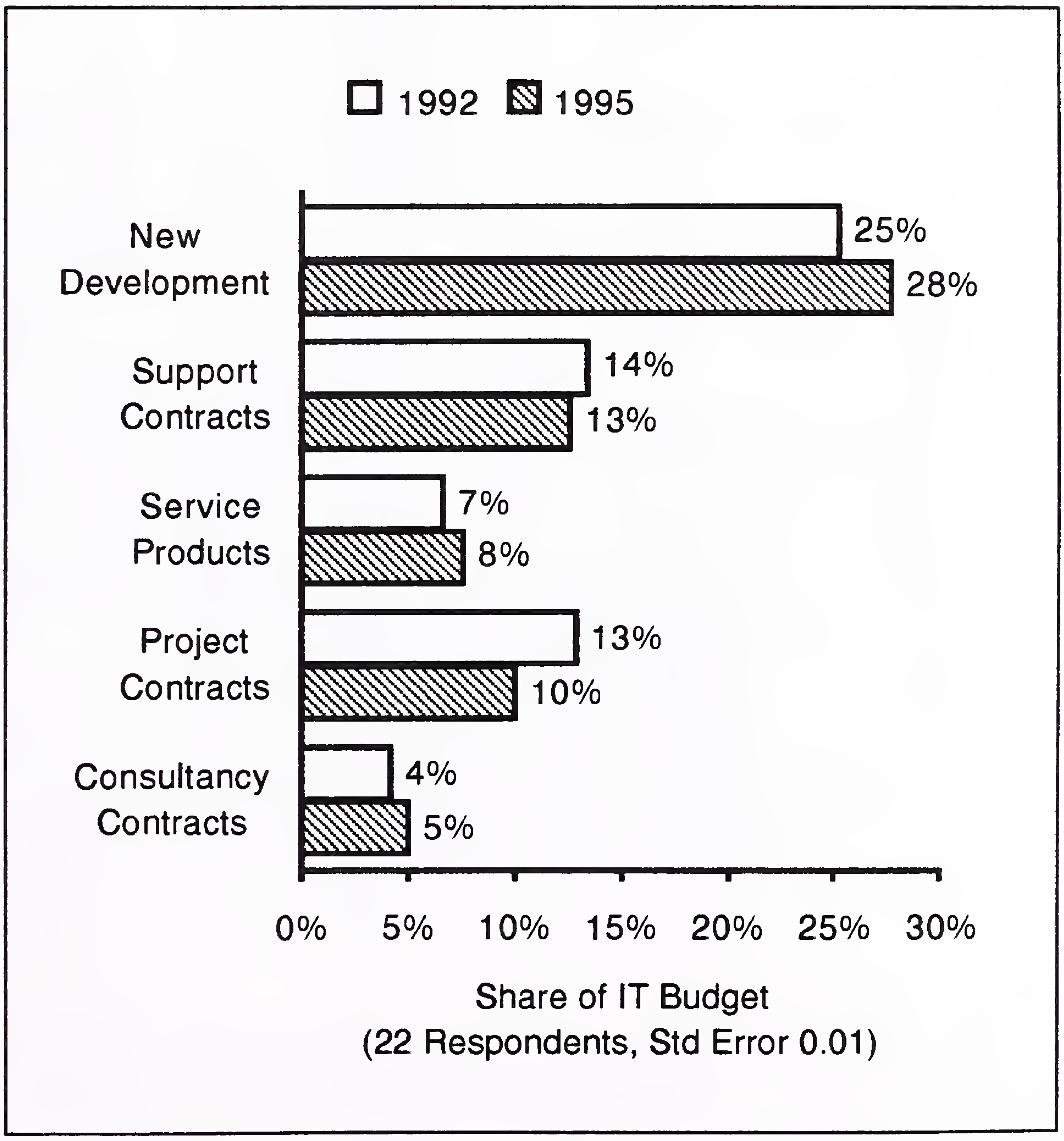
What will be spent on services?

The proportion of users' total IT budget spent on services has been consistently increasing over the past decade, resulting in a very rapid growth in professional services business throughout Germany despite customer services spending becoming more or less static by the end of the same period.

Exhibit III-15 shows an analysis of user responses to questions about the average percent of IT budget spent on different elements in 1992 and their

EXHIBIT III-15

User Expectations - IT Budget Content Trends, Germany



Note: Only selected components of IT budget are included.,not 100%.

expectations for 1995. Although overall spending on new application development is expected to rise, the amount spent externally on project contracts is predicted to fall as a percentage of the total IT budget. This again shows the users' expectation that availability of improved software products and standards will decrease their needs for external assistance with new development projects.

INPUT's analysis of the overall spending on IT, both internal and external, is given in Exhibit III-16. This shows the relative sizes of each component and their forecast growth rates. Despite the user expectation shown in the previous exhibit, INPUT still predicts faster growth in external spending on software and services than on other areas such as staff or hardware.

It should be noted that all INPUT growth rates assume and include an inflation rate of around 3% per year in Germany.

EXHIBIT III-16

How Will German IT Budgets Change?

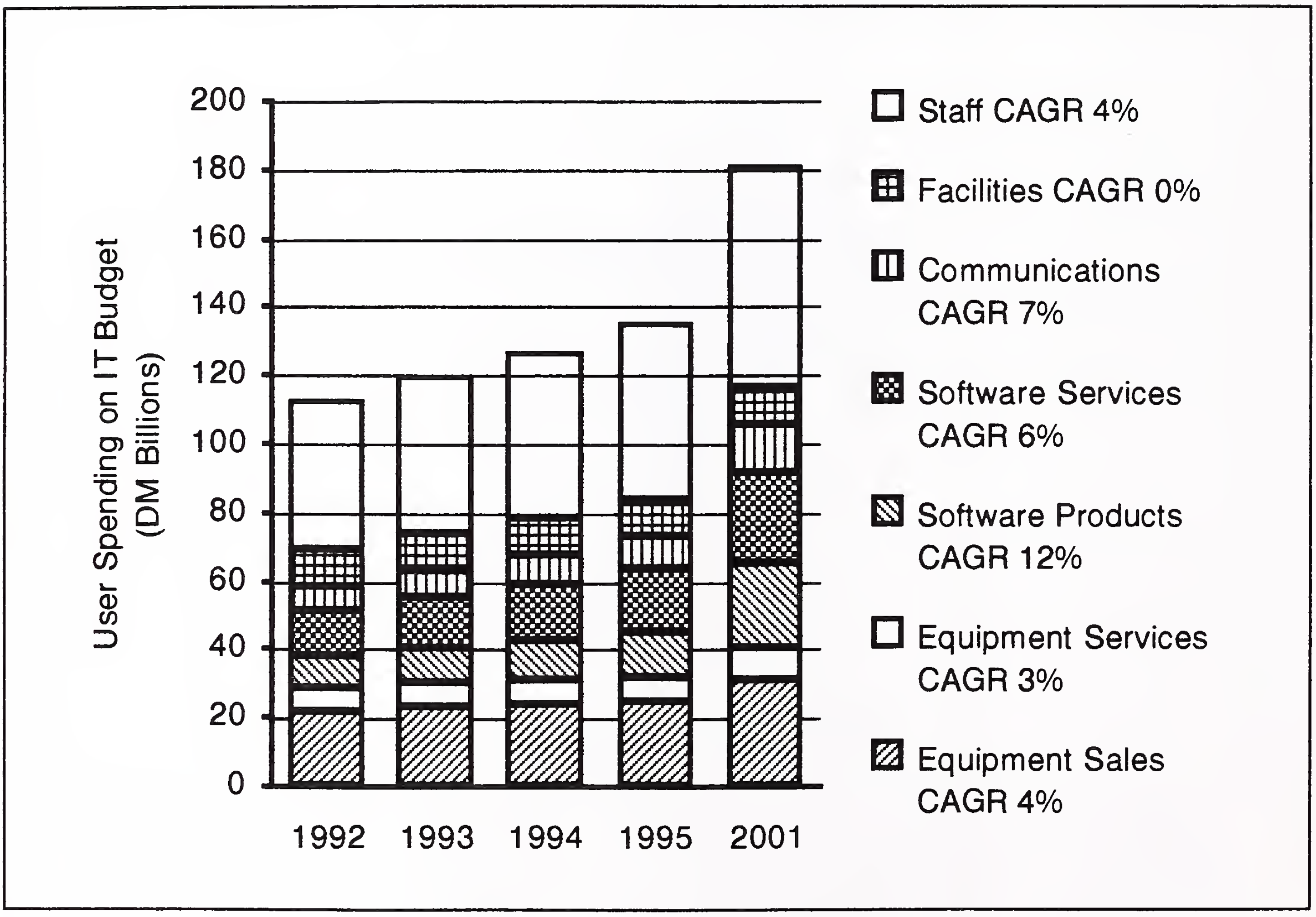
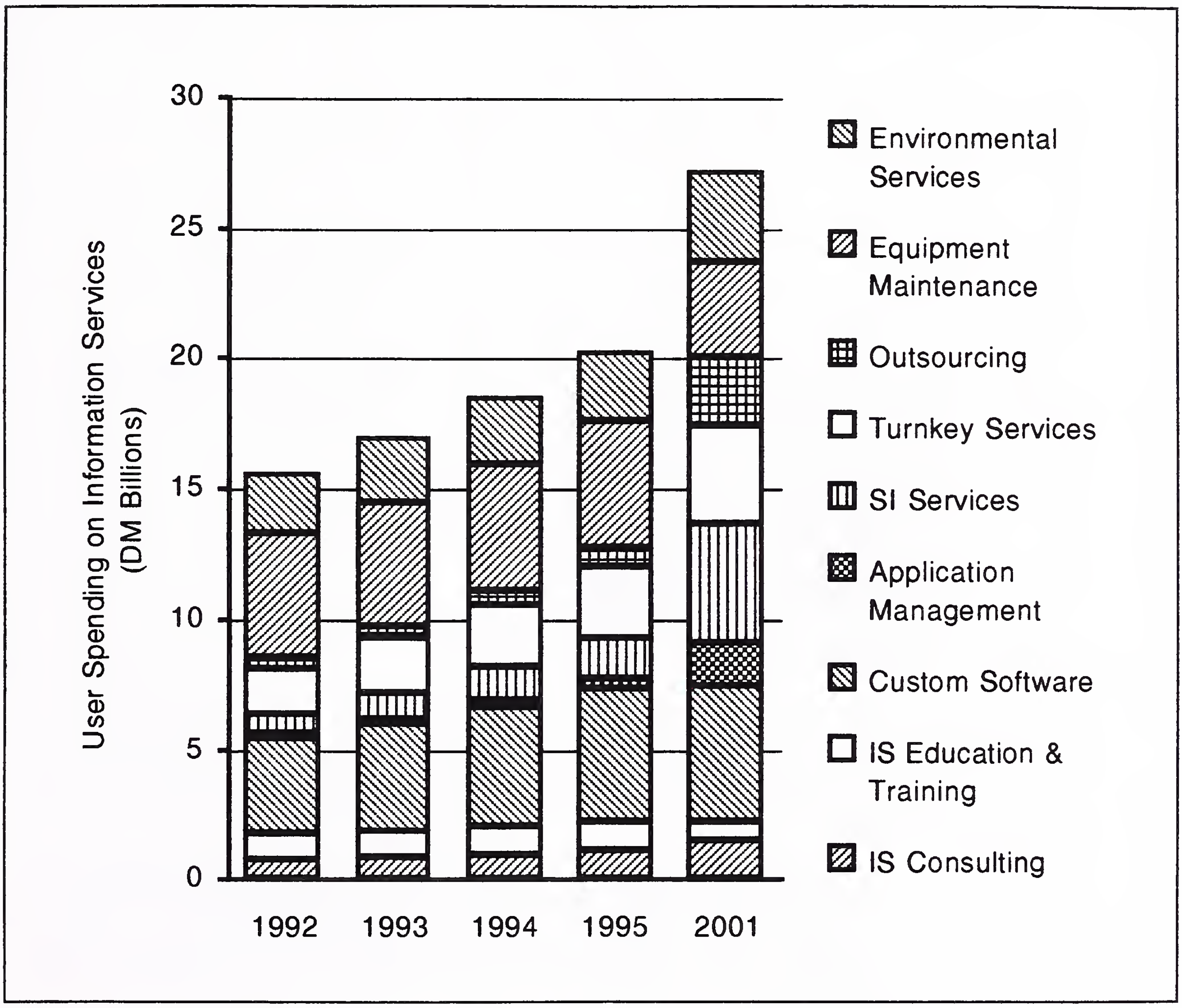


Exhibit III-17 illustrates the split of the services forecast between all the different delivery modes which make up the services sector.

subsectors. This scenario received unexpectedly strong endorsement during the user interviews - see sub-section 5, demand for new services, below.

EXHIBIT III-17

Computer Services Forecast Germany

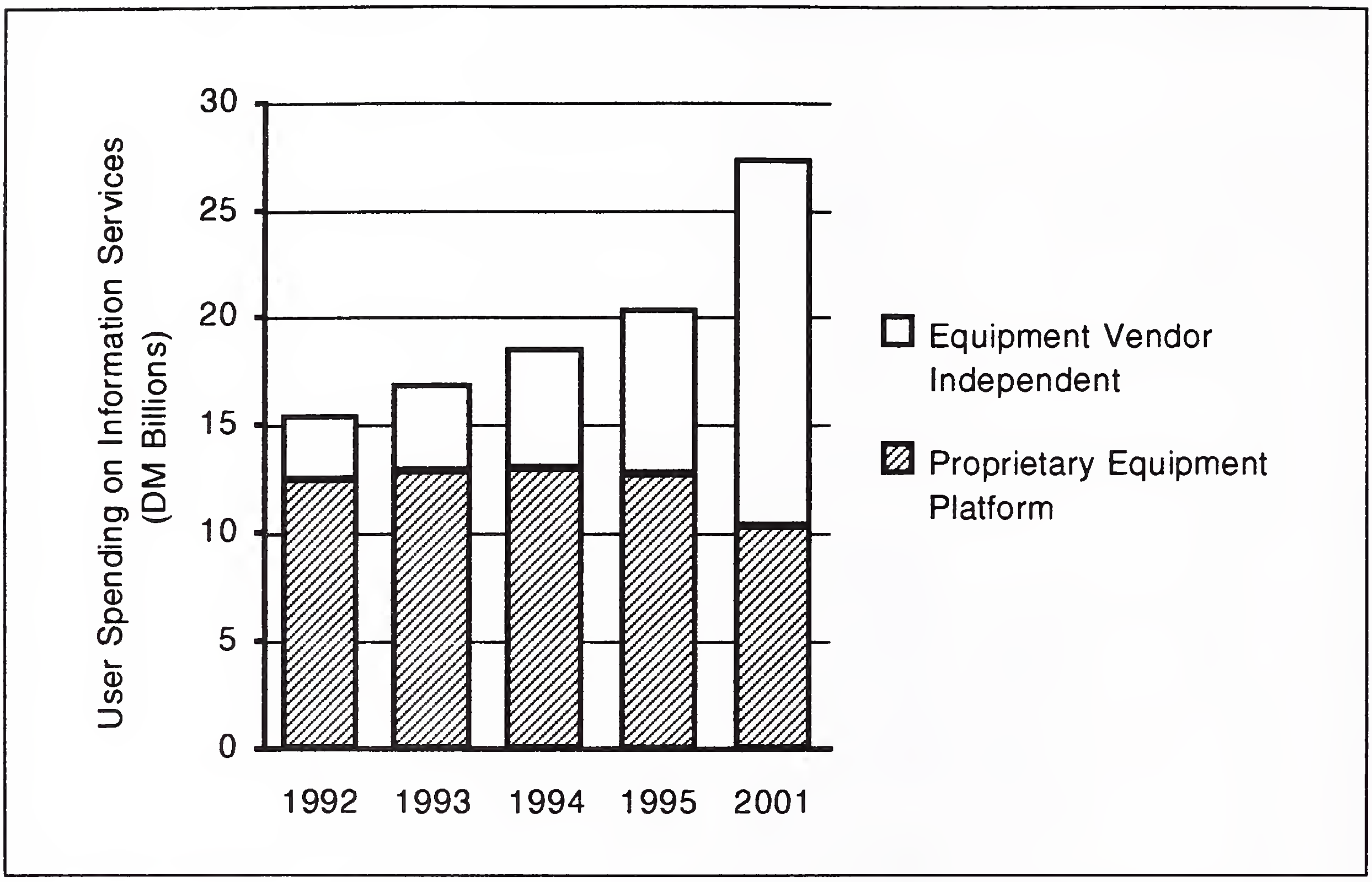


What influence is open systems likely to have on this growth pattern? Exhibit III-18 is INPUT's estimate. This uses a definition of open which merely distinguishes between services which are dependent on a specific proprietary equipment platform and those which are not (and considered open). It includes both the PC and UNIX markets.

The forecast was compiled by assessing the impact of open systems on all the different delivery modes and then consolidating them. For example it assumes that by 2001 75% of all turnkey systems will be based on open equipment platforms (including operating systems such as NT).

EXHIBIT III-18

Forecast Impact of "Open" Systems on Computer Services - Germany



The component parts of the "open" services sector shown on the previous exhibit as growing rapidly are shown in Exhibit III-19.

Equipment maintenance revenues are largely dependent on installations of old equipment, while new equipment is more reliable and less likely to be subject of a maintenance contract. Environmental services on the other hand generally relate to the purchase of new systems and is a substantial market.

Once again it can be seen that outsourcing (systems operations), systems integration services and application maintenance are forecast as the high growth subsectors. These sectors are particularly stimulated by the trend to open systems.

EXHIBIT III-19

Forecast of Vendor Independent Computer Services - Germany

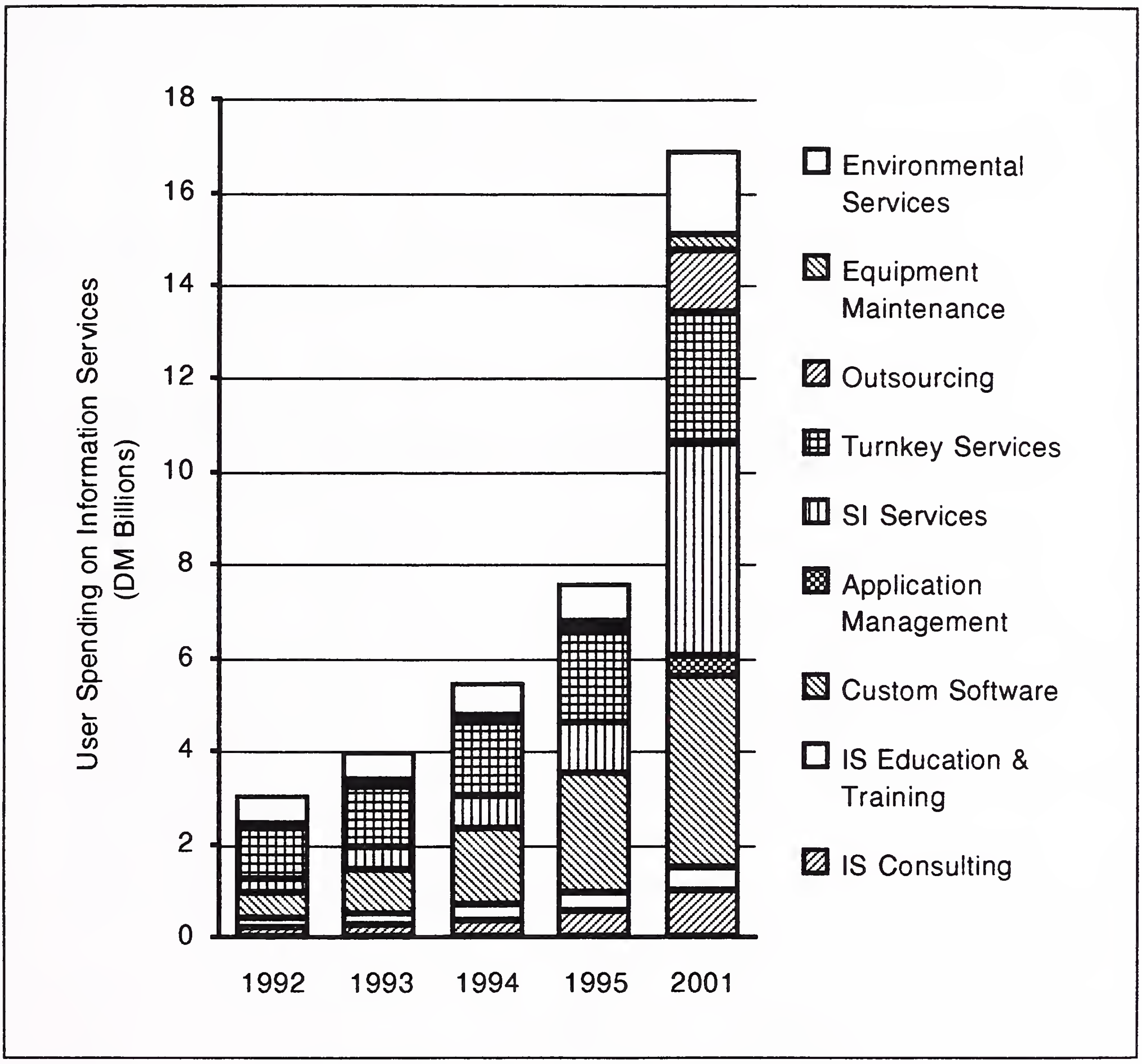


Exhibit III-20 gives the numeric values used to compile the previous chart.

EXHIBIT III-20

Vendor-Independent Services, Germany

Hardware Independent Computer Services	DM Millions				
	1992	1993	1994	1995	2001
IS Consulting	190	250	380	550	1,020
IS Education & Training	200	260	320	390	480
Custom Software	550	940	1,610	2,580	4,120
Application Management	0	0	0	10	410
SI Services	320	500	730	1,060	4,550
Turnkey Services	1,070	1,290	1,580	1,960	2,810
Systems Operations	0	10	20	60	1,350
Equipment Maintenance	100	120	140	170	360
Environmental Services	580	610	690	800	1,780
Total Computer Services	3,000	4,000	5,500	7,600	16,900

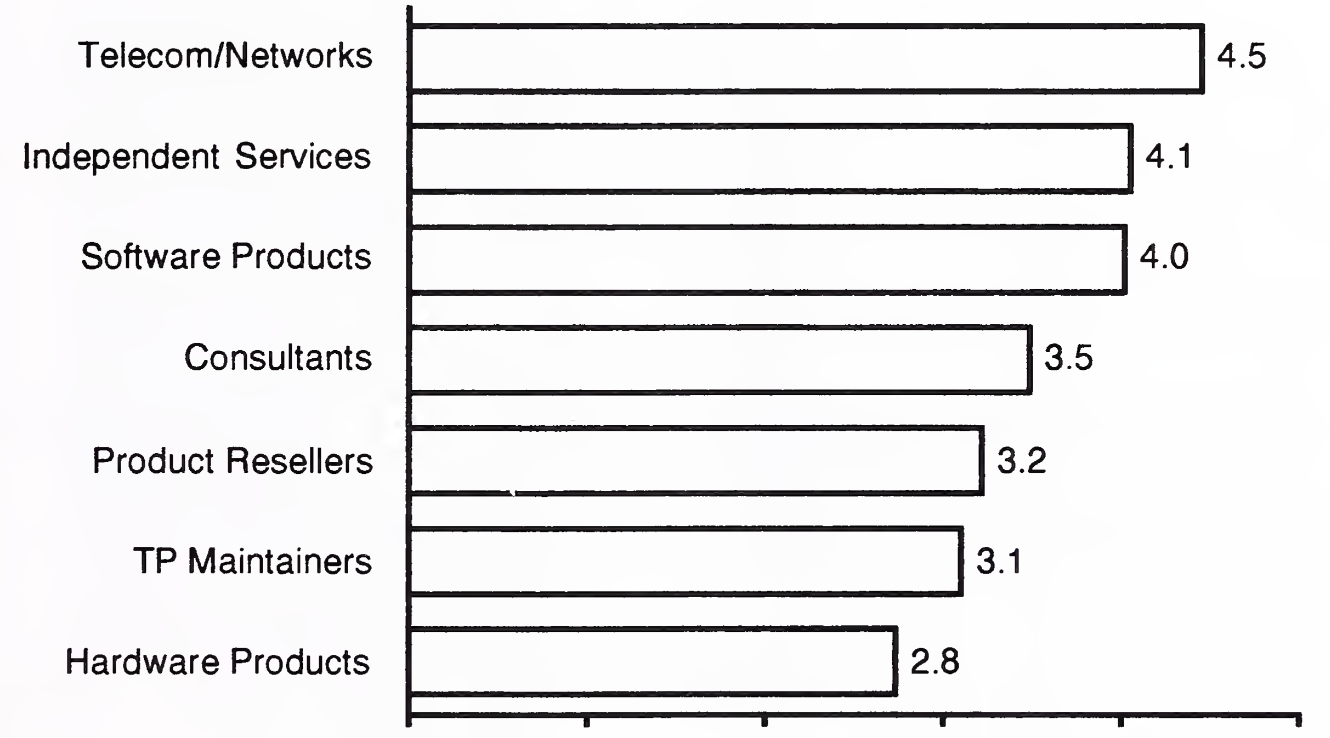
D

How will vendor shares change?

With the IT market showing many signs of saturation, vendors are finding competitive pressures at a more aggressive level than ever before. Exhibit III-21 shows that the recent financial difficulties of most of the equipment vendors have left users with a poor opinion of their likely future success as a group. On the other hand the Telecom vendors and independent software service vendors get a high rating.

EXHIBIT III-21

User Expectations - Future Success of Vendor Groups, Germany 1992



(28 Respondents, Std Error 0.1
Score 1 = little future success, 5 = highly successful)

When asked about particular vendors the 30 users interviewed were clearly far more aware of the hardware vendors than the "independents". Exhibit III-22 shows an analysis of their replies into categories: unknown (or no comment), poor opinion, average, and good opinion.

Hewlett Packard did well, although several users were only aware of their printer products. Poor opinions of SNI were more strongly stated than those for IBM, giving the impression of a major loss of confidence in SNI compared to primarily irritation with IBM. HP was mention by 13 respondents as a primary supplier to them, reflecting the bias of the user sample to include a representative number of HP users.

EXHIBIT III-22

User Opinions of Named Vendors, Germany 1992

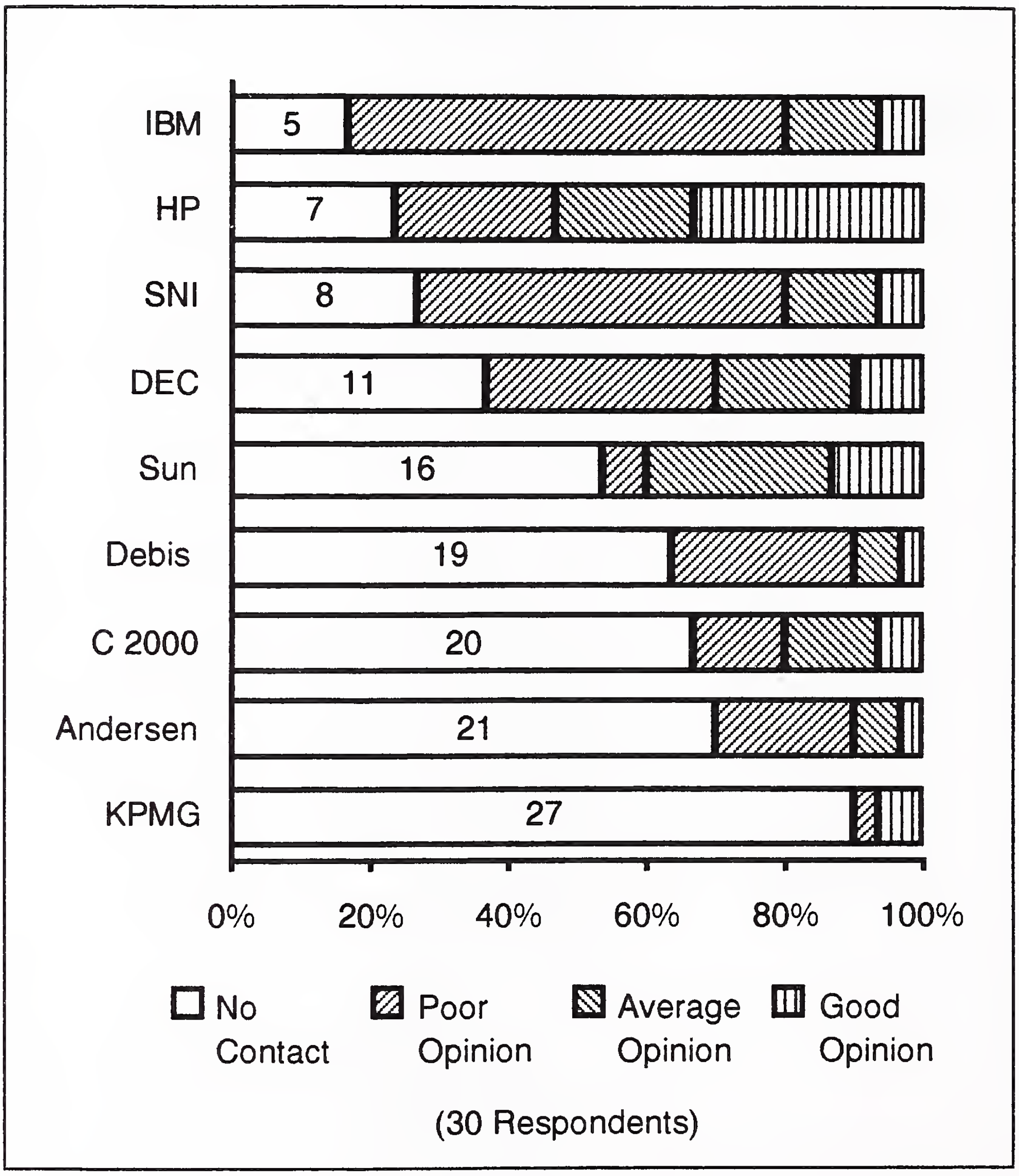


Exhibit III-23 shows INPUT's ranking of professional services vendors in Germany for 1991. These revenues include IT consultancy, custom software development, contract staff, and education and training.

EXHIBIT III-23

Professional Services Leading Vendors
Germany 1991

Rank	Vendor	Origin	Rev. (DM M)	Share(%)
1	IBM	U.S.	410	8.1
2	debis Systemhaus	Germany	225	4.5
3	Siemens-Nixdorf	Germany	175	3.5
4	Ploenzke-Gruppe	Germany	170	3.4
5	ESG-FEG	Germany	160	3.2
6	Software AG	Germany	155	3.1
7	Compunet Computer	Germany	150	3.0
8	SAP	Germany	145	2.9
9	Cap Gemini Sogeti	France	105	2.1
10	Integrata	Germany	90	1.8
	Total Listed		1785	35.3
	Total Market		5050	100.0

Exhibit III-24 shows vendor market shares for (large) systems integration projects in 1991.

EXHIBIT III-24

Systems Integration Leading Vendors
Germany 1991

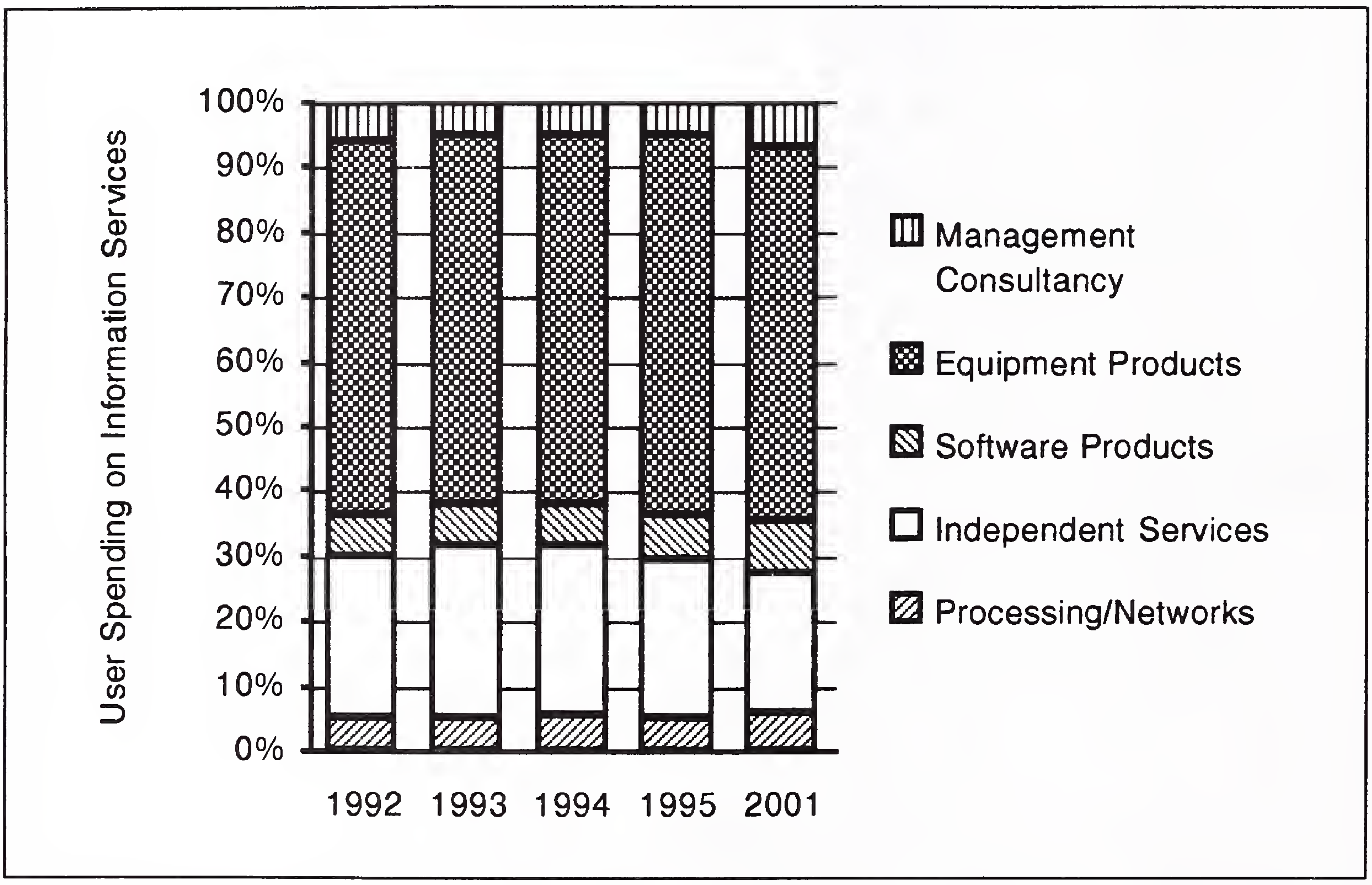
Rank	Vendor	Origin	Rev. (DM M)	Share(%)
1	IBM	U.S.	150	11.1
2	Siemens-Nixdorf	Germany	130	9.6
3=	Andersen Consulting	U.S.	45	3.3
3=	Bull	France	45	3.3
5	Cap Gemini Sogeti	France	40	3.0
6	Ploenzke-Gruppe	Germany	30	2.2
7=	debis Systemhaus	Germany	25	1.9
7=	Ferranti	U.K.	25	1.9
9	Digital	U.S.	20	1.5
10	Sema Group	France	15	1.1
	Total Listed		525	38.9
	Total Market		1,350	100.0

Exhibit III-25 is a further analysis of INPUT's vendor database showing revenues split by vendor group, with a forecast of potential future changes.

Contrary to the user opinion in a previous exhibit, that equipment vendors are going to be least successful in future, INPUT predicts that they will win market share from traditional professional services vendors. The financial muscle, ability to productise, and control of sales channels should give equipment vendors strong leverage to win services business from their customers.

EXHIBIT III-25

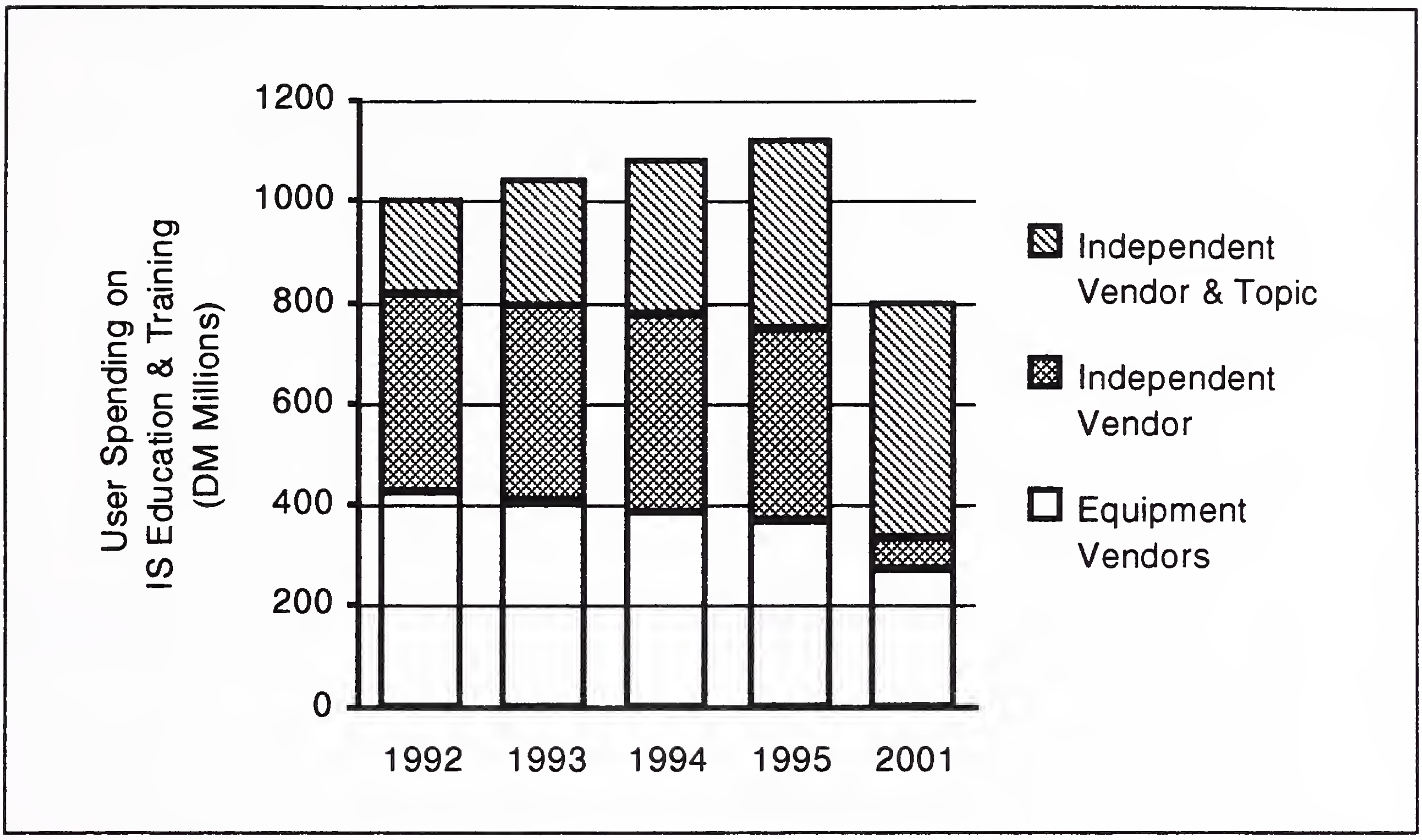
Market Shares by Service Vendor Group, Germany



A further level of detail concerning the development of education and training services is shown in Exhibit III-26. This shows that INPUT predicts new technology and methods are going to shrink the total market in the second half of the 1990's. and that independent vendors are going to gain nearly all their business from open or vendor-independent topics.

EXHIBIT III-26

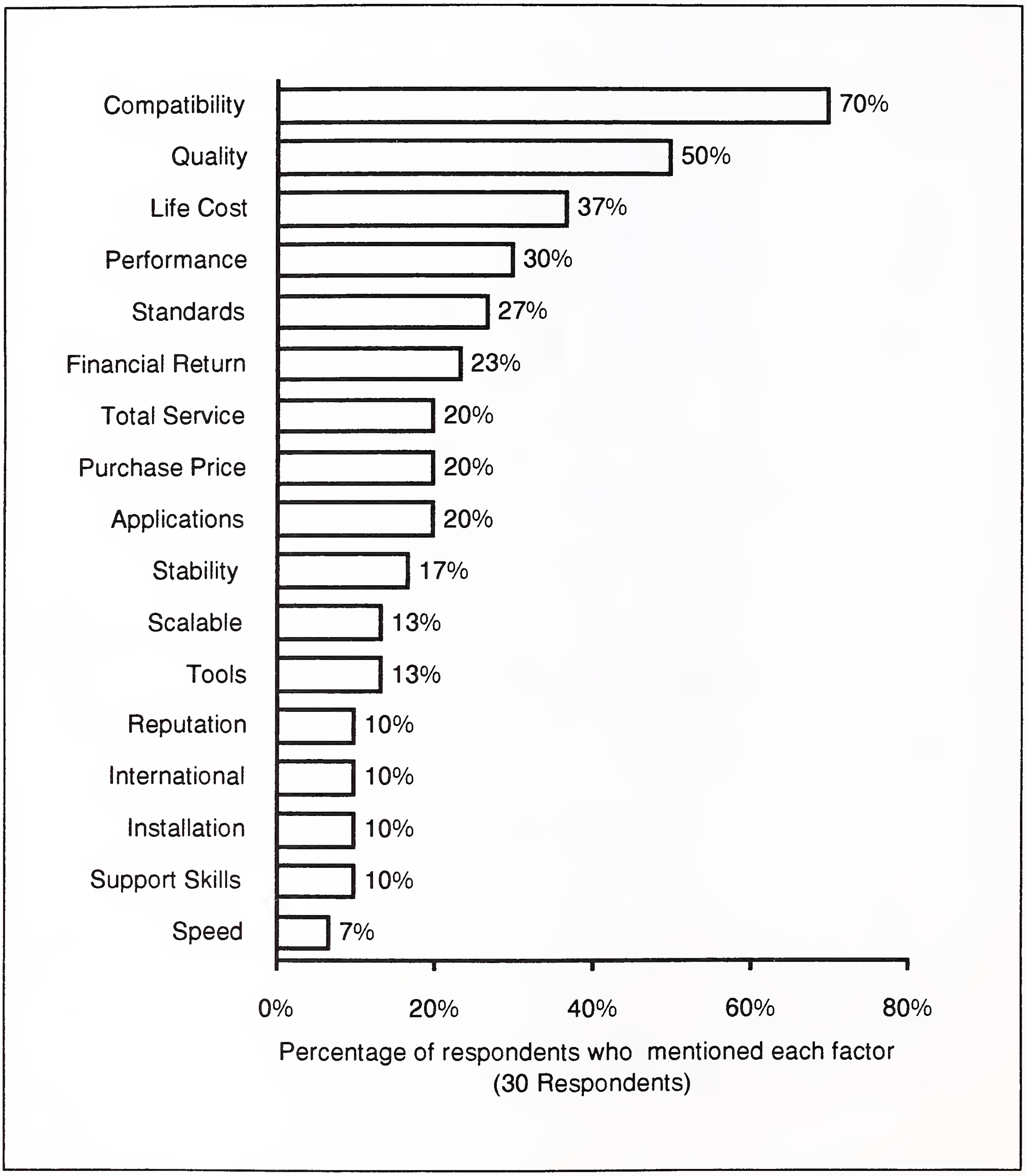
Education & Training by Services Vendor Group, Germany



The IT management interviewed for this study were asked to rank their most important selection criteria when buying systems. Exhibit III-27 is the analysis of the results. Users were prompted with a list of measurable criteria which tended to exclude intangibles such as relationship with the salesman.

EXHIBIT III-27

Top Selection Criteria - Systems, Germany



E

Conclusions

The hypothesis which was originally the basis for this study was that there was a specific opportunity for HP to market open systems services. The study shows that the trend to open systems is clearly and dramatically changing the profile of the service market. However INPUT has reservations as to how visible or differentiated such services will become in the eyes of the customer.

How should HP organise its services to win more business? How should it manage competitive channel partners? How should it position its services initiatives to maximise overall success?

In studying several vendors in the market INPUT has concluded (see Exhibit III-28) that there is no "natural" type of organisation structure which would improve the chances of winning market share.

EXHIBIT III-28

Conclusions - Organisation

- All types of competitor organisation exist
  - no obvious winners
- Re-organisation is used for staff cuts
- Keep HP culture, teamwork, good practice

Winners are characterised by their ability to respond rapidly to changing market demands and the impact of new technology - teamwork and management leadership are key.

As the market demand becomes ever more complex it is natural for vendors to wish to be good at everything. The open systems movement has helped create an environment where partnerships are an essential component of good business practice. Market saturation will mean that only those with successful partnerships will survive to grow market share.

INPUT detected concern among HP management at the loss of account influence resulting from the use of some channel partners. INPUT's opinion is that HP should focus on increasing its own (largely technological and financial) and its partners' existing strengths and in getting partners and customers to value them more - see Exhibit III-29.

EXHIBIT III-29

Conclusions - Channel Partners

- Strengthen HP partners
  - Director-to-Director
  - Channel training
  - Build joint SI teams

- Increase HP strengths
  - Risk management
  - Project management
  - Standards setters

Faced with a market which knows HP firstly as a printer vendor, then for workstation products, then for mid-range systems, where can its services capabilities fit in the customers perception?

INPUT's conclusions and recommendations in this area are given in Exhibit III-30. HP should not attempt to position its services initiatives by calling itself a services company - something many of the large equipment vendors are doing in an attempt to look more attractive to their customers and to their investors.

Instead HP should build on its existing reputation for high technology, quality and performance products, by assigning those same attributes to its *service*. Add *service* to the list of company attributes, rather than adding a list of *services* to the company product catalogue.

EXHIBIT III-30

Conclusions - Positioning

- Service (not services)

- Premium quality/value

- Competitive prices

- Helping customers fully exploit technology

- Reliable and fast